The GCC’s Commercial Vehicle Market: Trends and Opportunities

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# Table of Contents

1. Commercial Vehicle – Sales Review  
2. Mega Trends, Drivers, and Restraints  
3. CV Market – Parc Profile  
4. Spare Parts Market in the GCC for CVs  
5. Key Takeaways
Commercial Vehicle – Sales Review
The Gulf Cooperation Council (GCC) Commercial Vehicles (CV) Industry — Sales Trends

Total Commercial Vehicles, Past Trends and Current Market, the GCC, 2009-2014

- Growth: 13.4 per cent (2009-2014)
- Y-o-Y growth: 7.0 per cent (2013/14)
- Coverage: Trucks and Buses

Market started picking up post 2008 and the recovery period witnessed highest growth

Source: Frost & Sullivan
The GCC Total CV Sales

1. Used Vehicle imports was highest in the KSA, especially in the Heavy Commercial Vehicle category
2. Limited used vehicle imports in case of Buses across the GCC

The GCC CVs MARKET: USED + NEW VEHICLES, 2014

<table>
<thead>
<tr>
<th>Total Market: 115,171 Units**</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New vehicle sales 89,671</td>
<td>78%</td>
</tr>
<tr>
<td>Old vehicle sales 25,500</td>
<td>22%</td>
</tr>
</tbody>
</table>

- The total Light Commercial Vehicles (3.0 Tonne to <=9.0 Tonne Gross Vehicle Weight (GVW) market was 47,858 units in 2014 wherein, used vehicle imports is not common in the GCC as this market is primarily dominated by Japanese majors which are more cost effective than the European counterparts
- In case of Medium and Heavy Commercial Vehicles (>9.0 Tonne GVW), the dominance of used vehicles was much higher when compared with light vehicles.
  - The total M&HCV market (new and used) was 67,313 units in 2014
  - Major used vehicles imports witnessed in the Heavy Commercial Vehicles (>16 tonnes GVW) category
- Imports of used vehicles were nearly 34.6 per cent in trucks and 3.2 per cent for buses in 2014

Commercial Vehicles include Trucks and Buses
** Includes Trucks, Buses, and Mini Buses (Mini Vans)
** Includes used and new vehicle sales

Source: Frost & Sullivan
Break-up of Total CV Sales
Medium and Heavy Commercial Vehicles (M&HCV) accounted for 58.5 per cent of the sales in 2014

<table>
<thead>
<tr>
<th>Segment</th>
<th>Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>LCV</td>
<td>47,858</td>
<td>41.5%</td>
</tr>
<tr>
<td>MCV</td>
<td>17,710</td>
<td>15.4%</td>
</tr>
<tr>
<td>HCV</td>
<td>49,603</td>
<td>43.1%</td>
</tr>
</tbody>
</table>

Total Market: 115,171 Units

- Sale of used vehicles is mostly in the heavy vehicle segment
- Light commercial vehicle segment does not have used vehicle sales due to aggressive pricing of Japanese OEMs

LCV: 3.0 Tonne <GVW<=9.0 Tonne (Includes small pick up for goods carrier)
MCV: 9.0 Tonne<GVW<=16.0 Tonne
HCV: 16.0 Tonne<GVW

Source: Frost & Sullivan
Overall CV Market: Truck vs. Bus (New Vehicle Sales)

Trucks comprised 74.5 per cent share of the market, whereas buses accounted for the rest.

The GCC CV MARKET: TRUCK vs. BUS, 2014

- Buses are normally classified in more than 4-9 Tonne GVW (light) and more than 9 Tonne GVW (medium and heavy) category.
- The Heavy Duty bus segment generated the maximum volume in the GCC bus market.
- The Light Duty Trucks segment (below 9.0 Tonne GVW) witnessed sales of 40,000 plus units of vehicles, which was the highest in terms of volumes amongst new truck sales market in the GCC.
- Medium and Heavy Duty trucks market (above 9.0 Tonne) created a demand of 18,400 units of trucks in the year 2014.
- Almost 21,500 trucks, which were imported in 2014, were used/old trucks.

Total Market: 89,671 Units**

- Sale of used vehicles is mainly in the heavy vehicle segment.
- Light commercial vehicle segment does not have used vehicle sales due to aggressive pricing of Japanese OEMs.

Commercial Vehicles (CVs) include Trucks & Buses
** only new vehicles sales. Does not include used vehicles
** Includes Mini bus/Mini Van sales

Source: Frost & Sullivan Analysis
Mega Trends, Drivers, and Restraints
Factors Impacting CV sales
The GCC’s economic drive is intertwined with robustness of crude exports and government expenditures; these two factors are the major drivers of trucks sales.

Key Factors Impacting Vehicle Sales (Growth) in the GCC

- In the absence of economic diversity, government expenditure and service sector control every activity of the economy and factors like employment, income generation, and Imports, which are the key drivers for Vehicle sales.
Factors Impacting CV Sales (continued)

Crude Oil Price is the most important factor controlling growth of economy in the GCC; a good economic growth drives investments, resulting in higher CV sales.

- Regression and correlation analysis of 28 key economic factors suggests Crude Oil Price as the single most important factor controlling growth of the GCC’s economy and a good economic growth enables good vehicles sales.

- Crude Oil Price has the highest correlation coefficient of 0.9. Any changes in the crude oil price is likely to impact the economy positively or adversely.

Numbers mentioned denote the correlation coefficient

The other key factors enabling the growth of economy in the GCC and vehicle sales are:
- Government expenditure driving the economy
- Service sector growth and imports driving commercial vehicles sales
- Higher employment and economic growth increasing per capita income driving sales of vehicles
The GCC Commercial Vehicle Sales Drivers

Government expenditure in infrastructure projects drives the economy in the GCC as well as trucks sales.

Increasing population and per capita incomes are driving higher consumption of goods. The GCC economy is highly dependent on imports. Any growth in consumption pattern demands growth in transportation and logistics activities, resulting in higher demand for trucks.

Development of Bus Rapid Transit System and Metro Rail are likely to drive demand for Buses.

Source: Frost & Sullivan
Market Drivers and Restraints

Increasing investments in the infrastructure segment will boost growth in the M&HCV Trucks and bus market as well.

### The GCC Trucks and Buses Market: Key Market Drivers and Restraints, 2015-2020

<table>
<thead>
<tr>
<th>Drivers</th>
<th>Restraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy investments planned by the governments in the GCC to support growth in infrastructure segment</td>
<td>Growth of railway network will hamper sales of long-haul vehicles in the longer run</td>
</tr>
<tr>
<td>Increased government spending on public transportation system</td>
<td>Adverse climatic condition keeps FIs away into the country for Industrialisation</td>
</tr>
<tr>
<td>The GCC government’s initiatives to increase employment will further boost the per capita consumption</td>
<td>Higher dependency on private cars for local commuting is not creating higher volumes for Bus sales in the GCC market</td>
</tr>
<tr>
<td>Increasing FIs* into the GCC will further boost the demand for Commercial Vehicles</td>
<td></td>
</tr>
<tr>
<td>The governments’ ever increasing emphasis on industrialisation and supporting growth in manufacturing</td>
<td></td>
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</tbody>
</table>

*Foreign Institutional Investors*

Source: Frost & Sullivan
Investment in Parallel Systems (transportation) May Hinder the Sales of Trucks in the Long Term

Public Transportation (Linear and Futuristic)
Investment in the rail sector, low cost airlines, transit system, and metro railway can impact trucks and large bus sales. However, this factor will impact the demand for trucks and buses in the next six to seven years.

Goods Transportation – The GCC Rail Project
The GCC is likely to promote further inter-country trade by speeding up the Railway project completion by 2017-2018. This will affect sales of long-haul vehicles negatively.
CV Market – Parc Profile
Past Trends – Units in Operations (UIO)

Close to 1.2 Million units of CV operational in 2014; fastest growth is expected in SCV* category (CV of <3 Tonne GVW), which is not included here.

![Commercial Vehicles UIO Trends, 2009-2020, the GCC](chart)

CAGR: 7.0%
CAGR: 7.2%

In Thousand Units

<table>
<thead>
<tr>
<th>Year</th>
<th>LCV (214)</th>
<th>M&amp;HCV (431)</th>
<th>Total (656)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>800</td>
<td>214</td>
<td>1,014</td>
</tr>
<tr>
<td>2014</td>
<td>900</td>
<td>788</td>
<td>1,688</td>
</tr>
<tr>
<td>2020</td>
<td>1,211</td>
<td>636</td>
<td>1,847</td>
</tr>
</tbody>
</table>

*CNote: SCV = Small Commercial Vehicles (<3.0 Tonne GVW); LCV = Light Commercial Vehicles (3.0-9.0 Tonne GVW); MCV = Medium Commercial Vehicles (>9.0-16.0 Tonne GVW); HCV = Heavy Commercial Vehicles (>16.0 Tonne GVW); GVW = Gross Vehicle Weight; CAGR = Compound Annual Growth Rate

Source: Frost & Sullivan Analysis
OEM Share in UIO – By Vehicle Categories

Isuzu and Mitsubishi have led the LCV* market with nearly 67 per cent share, whereas M&HCV** is led by old imports (In new vehicles, Isuzu, Mitsubishi, and Mercedes are the market leaders)

- Limited imports of used trucks in the LCV category
- In case of Medium and Heavy Commercial Vehicles (>9.0 Tonne GVW), the dominance of used vehicles was much higher when compared to light vehicles
- Mercedes, Volvo, and MAN accounted for the maximum share in old imports – mostly imported from the European Union (EU)

* LCV – Light Commercial Vehicle
*** M&HCV – Medium and Heavy Commercial Vehicle
*** Others include Tata, Daewoo, Ahsok Leyland, Scania, Dongfang, Foton, etc...

Source: Frost & Sullivan Analysis

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LCV, OEM-wise Parc, the GCC, 2014

- Isuzu: 40.1%
- Mitsubishi: 27.0%
- HINO: 11.0%
- Hyundai: 7.4%
- Toyota: 8.0%
- Others***: 6.2%
- Total: 430,951

M&HCV, OEM-wise Parc, the GCC, 2014

- Isuzu: 14.0%
- Mitsubishi: 10.0%
- Mercedes: 14.0%
- IVECO: 11.0%
- HINO: 7.5%
- MAN: 4.0%
- Volvo: 3.0%
- Others: 6.2%
- Total: 788,305

Old Imports

- Isuzu: 25.2%
- Old Imports: 19.1%
- Others: 14.0%
- Mercedes: 10.0%
- HINO: 7.5%
- MAN: 6.2%
- Volvo: 4.0%
- IVECO: 3.0%
- Total: 430,951
Commercial Vehicles Parc – Age Break-up

Vehicle age is increasing in the GCC as people are using vehicles for longer period.

Vehicle Age Break-up, 2014, the GCC

- 0-3 years: 15.3%
- 4-6 years: 30.2%
- 7-10 years: 29.1%
- >10 years: 25.4%

Total: 1,219,256

Average Age = 7.6 years

Vehicle Age Break-up, 2020, the GCC

- 0-3 years: 22.7%
- 4-6 years: 23.2%
- 7-10 years: 22.0%
- >10 years: 32.1%

Total: 1,846,707

Average Age = 8.0 years

- Growth at a CAGR of 7.2 per cent (2014-2020)
- 1.8 million commercial vehicles to be operational by 2020
- More number of vehicles in 10 years and above category in 2020 (3 per cent higher than 2014)

Source: Frost & Sullivan Analysis
Vehicle Parc Analysis by Tonnage

Vehicles with GVW>16 Tonne comprise a market share of nearly 45 per cent

PARC, 1.2 Million Vehicles
Break-up by Tonnage, 2014

- 25.0 Tonne <=GVW< 40.0 Tonne: 21.5%
- 40.0 Tonne <GVW< 9.0 Tonne: 35.3%
- 9.0 Tonne<=GVW<16.0 Tonne: 22.1%
- 16.0 Tonne<= GVW<25.0 Tonne: 18.3%
- 40.0 Tonne< GVW<40.0 Tonne: 3.0%

PARC, 1.8 Million Vehicles
Break-up by Tonnage, 2020

- 25.0 Tonne <=GVW< 40.0 Tonne: 19.6%
- 40.0 Tonne <GVW< 9.0 Tonne: 34.4%
- 9.0 Tonne<=GVW<16.0 Tonne: 23.2%
- 16.0 Tonne<= GVW<25.0 Tonne: 20.2%
- 40.0 Tonne< GVW<40.0 Tonne: 3.0%

- Tractor Trailers are the highest selling application in the long-haulage heavy duty market
- The LCV and MCV market primarily creates a demand for rigid body application having end usage in intra-city transport
- With the development of railway network, MCV segment will see more growth due to higher secondary transport demand, while demand for HCV will decrease

Source: Frost & Sullivan Analysis
Vehicle Ownership Pattern

LCV has the highest number of driver-owned small fleet, whereas M&HCV has 65 per cent fleet operators as owners (lowest in the GCC)

- LCV has the highest number of individual and small fleet operators
- Used truck import is very common in the GCC (especially in the >16 Tonne GVW category)
- These used trucks are imported by individual operators as well as small and medium fleet companies. Distributors run various programmes to educate fleet operators to buy new vehicles (especially in the 24 Tonne and above category)
- Regulation changes are likely to impact the market growth

Source: Frost & Sullivan Analysis

F R O S T & S U L L I V A N
Spare Parts Market in the GCC for CV
Spare Parts Market
The total spare parts market for CV was USD 3.38 Billion (Bn) in 2014, which is likely to reach USD 5.49 Billion by 2020.

Note: All figures are rounded.

Source: Frost & Sullivan Analysis
Spare Part Demand (Continued)

Maintenance and Mechanical Parts account for 71 per cent of the market; high demand of collision parts in the UAE, the KSA, and Kuwait

- The key Servicing and Maintenance parts include Filters, Spark Plugs, Belts, Brakes Shoes/Linings......
- High difference in mileage run by type of commercial vehicle
- Spare Parts Likely to witness 5-8 per cent increase till 2018, and might reduce thereafter due to the GCC rail transport project
- In a country like the KSA, nearly 40 per cent vehicles operate without insurance

Key maintenance parts: Bulbs, Plugs, Shoe and Lining, Belts, Filters
Key mechanical parts: Pumps, Alternator, Thermostat, Starters, Absorber

Source: Frost & Sullivan analysis
Market Forecast for Spare Parts
CAGR of 8.4 per cent to reach USD 5.49 Billion in 2020

Commercial Vehicles Spare Parts Demand Forecast, 2014-2020, the GCC

CAGR: 8.4%
Total: USD 5.49 Bn

The KSA: USD 2.05 Bn
The UAE: USD 0.80 Bn
The RoGCC*: USD 0.53 Bn

Total: USD 3.38 Bn

*The RoGCC = Rest of the GCC
Channel Analysis

Six routes exist for supply of parts in the GCC aftermarket with increasing competition from branded and other aftermarket parts.

- **Genuine Parts**
- **Other Aftermarket Parts**
- **Branded Aftermarket Parts**
- **Imports**
  - Domestic Imports
- **Counterfeit**
- **System Suppliers**
  - Example: Bosch Chassis Systems supplying brake components

**Note:**
- **OES** – Original Equipment Spares
  - OE Parts – OE fitted brands supplied in independent aftermarket
  - Alternate parts – Brand other than OE brand supplied in the independent after market
  - Spurious – Products which are not original and branded as original popular brands in the market
  - Imports – It includes domestic imports, which means a part directly gets imported from the country of origin without involving local operations of Genuine Parts supplier
  - System suppliers – Supply brand under their name, for example, Bosch braking products

Source: Frost & Sullivan analysis
Channel Analysis

Aftermarket Structure for Parts Supply (Can be represented differently for different countries in the GCC)

OES / OEM Partner

- Dealer / Distributor
  - Service Channel
  - Counter Sales
  - Wholesale

Parts Suppliers

- OES Second Brand
- OE Parts
- Non-genuine
- Domestic Imports

- Distributor / Importer
  - Sub WS
  - Retailer
  - Fleet / Garage
  - Export

- Sub WS
- Retailer
- Fleet / Garage
- Export

- Retailer
- Fleet / Garage

Customer

 Tier-1 ➔ Tier-2 ➔ Tier-3 ➔ Tier-4 ➔ Tier-5 ➔ Exports ➔ Customers

WS = Wholesaler

Source: Frost & Sullivan Analysis
Key Takeaways

- **Growing Parc** = 1.22 million (2014) to 1.85 million (2020) – CAGR of 7.2 per cent
- Dominance of Japanese OEM = LCV and European OEM = M&HCV
- **Average vehicle age likely to increase** – Expected to reach eight years by 2020 from present level of 7.6 years (2014)
- Growing Auto Components Market = **USD 3.38 Billion (2014) to USD 5.49 Billion (2020)**, at a CAGR of 8.4 per cent
- The KSA is the largest market in the GCC (followed by the UAE). The KSA is dominated by used truck imports in the heavy trucks category, while import of used trucks is limited in rest of the GCC
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